TRANSWORTH RAIL

Response to ORR Consultation on Freight Charging

Introduction

Transworth Rail advises a variety of freight customers and other parties considering investment in rail freight facilities. It also provides lectures and training courses on rail freight and has recently designed, on behalf of the Rail Freight Group and CILT, a one day course on 'Demystifying Railfreight', which has been delivered to groups from industry, the ORR and DfT.

Response

We have a number of concerns about the ORR proposals regarding freight charges, primarily about the increased charges proposed for certain commodities, but also about the proposed structure of charges.

Charging Structure

The current system of charges, varying by vehicle type but at a standard rate per gtkm across the UK, works reasonably well albeit the calculation is complicated, particularly when a range of vehicle types have to be considered. The proposal to introduce route-specific charging is most unwelcome as it would make such calculations substantially more complicated. This would further slow the response time to new enquiries, at a time when the industry needs to improve in this regard to compete with road hauliers, who have no such challenges in regard to calculating their costs.

It could also result in perverse incentives on FOC's to route trains via 'cheap' routes – quite possibly in conflict with strategic objectives, e.g. because of better quality track, it could be cheaper to route freight trains via the ECML rather than use the 'Joint Line' via Lincoln, thereby incentivising FOC's to use the congested main line rather than the soon-to-be-upgraded preferred freight route.

It should be understood that the welcome advent of route-specific cost reporting by Network Rail – which will allow comparison of efficiency between Routes and the spread of best practice to drive down costs – does not mean that these costs have to be slavishly reflected in charges. Effective cost management is not the same as effective charging. The regulatory mantra ought to be granular cost monitoring but market-efficient charging.

Level of Charges

The proposed increase in charges for electricity coal, nuclear and iron ore has a number of very worrying ramifications. First and foremost, it causes regulatory uncertainty in the minds of existing and potential customers, thereby undermining the confidence required if long term investments in rail freight are to be made.

The fact that the increases are limited to these allegedly 'captive' sectors on this occasion is of no comfort whatsoever. Once the basis of charging has been changed from one driven by cost to one driven by perceived market, there is wholly legitimate concern that, at the next periodic review, other sectors will be similarly leveraged – at the whim of politically-driven desires to extract more money from the industry. This is a highly dangerous precedent and very damaging to the much sought after development and growth of rail freight – and is thus contradictory to the ORR's general duty to encourage the growth of rail freight.

There are also serious concerns about proposals for the specific sectors affected. Of the three sectors, nuclear is the only one that is immune to increased access charges – and such increases will ultimately find their way back to HMG via the Nuclear Decommissioning Authority.

The increases suggested for iron ore will impact on one flow only – Immingham to Scunthorpe - but this is a fundamental element in the supply chain to one of the UK's three remaining integrated steelworks. Even a small increase per tonne has a large impact when up to 5m tonnes a year are being moved and any such increase can only further worsen the competitiveness of the UK steel industry, at a time when it is already struggling to survive. Increased charges would thus be contrary to HMG policy of supporting UK manufacturing.

Turning to the electricity supply industry (ESI), whilst it may, or may not, be true that there is no practical alternative for moving large volumes of coal into power stations, it is undoubtedly the case that increased rail haulage costs would impact on the competitiveness of coal versus gas and other fuels. The Office of Rail Regulation has no locus in determining the fuel mix of UK generation and should not be involved in 'rigging' a market in this way.

Any reduction in coal movements will adversely affect the rail freight industry, since wagons designed specifically for coal will stand idle (leasing charges will, of course, continue) and locomotives will be exported from the UK to Poland, Germany, Bulgaria et al. Neither is conducive to encouraging the growth and development of rail freight in the UK, contrary to HMG policy and ORR duties.

It is also quite clear that the increases would have a strongly adverse impact on the Scottish coal industry, since coal imported through East Coast ports and railed a short distance to power stations in the Aire and Trent valleys would have a substantial advantage over Scottish opencast coal being railed over long distance to the same stations. Again, the ORR should not taking actions which fundamentally affect development in UK regions through causing significant unemployment in Ayrshire and SW Scotland.

Most importantly though, the whole logic of increasing charges for ESI coal is based on a false premise. In the days when BR was a monopoly supplier of rail haulage, increased charges would, indeed, be passed through to the customer, for better or worse – and many customers voted with their feet in the early 1990's when such action was imposed. That is no longer the case. In the highly competitive market for coal haulage post privatisation, four FOC's compete aggressively for every tonne of coal tendered. Whilst margins are much reduced, ESI coal is still considered desirable business.

It follows from this that increased access charges will, to a significant degree, be competed away and absorbed by the FOC's in the form of reduced margins and profitability rather than being passed through, ineluctably, to the generators. It will be the rail freight industry that suffers, both directly and indirectly. The cost of having coal-specific equipment standing idle will drive

FOC’s to reduce their margin and the resultant reduced profitability will adversely affect their ability to grow the amount of freight on rail. Once again, the strategic objectives of HMG and ORR’s general duty to encourage growth will be frustrated.

ESI coal still is the bedrock on which UK rail freight is built and a move which hits the volume and profitability of this foundation will undermine the whole rail freight edifice. Regulation based on abstract theoretical modelling rather than commercial reality is in danger of causing fundamental damage to the industry for the sake of a quite insignificant amount of money in the context of overall UK rail funding.

Accordingly, we encourage ORR to abandon the proposals for changes to rail access charges and focus instead on doing everything possible to make the rail industry, particularly Network Rail, more efficient and more competitive with road transport, which has none of these hindrances.

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